

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 AGRE-00 /122 W
-----049447 140849Z /12

P 140821Z JUN 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 8802
TREASURY/DEP WASHDC PRIORITY
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - JUNE 8-14

1. SUMMARY: YEN CLIMBS TO NEW POSTWAR HIGH. FINANCE
MINISTER MURAYAMA CALLS FOR MORE ACTION TO REDUCE THE PAY-
MENTS SURPLUS. ECONOMIC PLANNING AGENCY (EPA) AND BANK OF
JAPAN (BOJ) MONTHLY REPORTS PICTURE THE ECONOMIC REVIVAL
AS FIRMLY BASED. WHOLESALE PRICES INCREASE 0.3 PCT IN
MAY. APRIL NEW MACHINERY ORDERS RETREAT AFTER MARCH SURGE.
IMPROVING TREND OF BANKRUPTCIES CONTINUES IN MAY. LABOR
CONDITIONS CONTINUE MIXED IN APRIL.

2. THE YEN SPURTED TO A NEW POSTWAR HIGH OF 216.20 IN
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INTER-BANK TRADING IN THE TOKYO MARKET ON TUESDAY, JUNE
13. THE SURGE TO THE 216 LEVEL TOOK PLACE IN HEAVY TRAD-
ING -- OFFICIALLY PUT AT \$629 MIL -- AND WITH NO REPORTED
BOJ INTERVENTION. AFTER RECOVERING TO 217.35 AT THE
TUESDAY CLOSE, THE YEN ADVANCED AGAIN IN EARLY TRADING
JUNE 14 TO 216.90 AT MID-MORNING. MARKET COMMENTATORS
GENERALLY ASCRIBED THE RISE IN THE YEN TO CONCERNS ABOUT

THE CONTINUING LARGE TRADE IMBALANCES AND FEARS OF A WIDENING INFLATION DIFFERENTIAL WITH THE U.S. OFFICIAL HINTS THAT THE MAY TRADE FIGURES, TO BE RELEASED LATE IN THE WEEK, WILL SHOW LITTLE IMPROVEMENT APPARENTLY ADDED TO MARKET CONCERNS.

3. IN COMMENTING ON THE NEW RISE IN THE YEN, FINANCE MINISTER MURAYAMA SAID THE GOVT MUST MAKE NEW EFFORTS TO REDUCE THE TRADE SURPLUS, SUGGESTED THAT STRONGER EXPORT RESTRAINTS AND EXPANDED EMERGENCY IMPORTS WERE REQUIRED. MURAYAMA SAID HE WILL RAISE THIS SUBJECT AT THE MEETING OF CABINET ECONOMIC MINISTERS SLATED FOR LATE THIS MONTH. SEPARATELY EPA DIRECTOR GENERAL MIYAZAWA AND MITI MINISTER KOMOTO HAVE SAID THEY WILL TAKE UP THE QUESTION OF FURTHER ASSISTANCE TO STRUCTURALLY DEPRESSED INDUSTRIES AT THE MEETING. A FULL AGENDA APPEARS TO BE SHAPING UP WITHOUT CONSIDERATION OF A SUPPLEMENTARY BUDGET.

4. EPA IN ITS MONTHLY ECONOMIC REPORT RELEASED JUNE 9 SAID THE IMPROVEMENT REGISTERED OVER PAST SEVERAL MONTHS IS BEING MAINTAINED, AND DISMISSED SETBACKS IN APRIL INDUSTRIAL PRODUCTION AND SHIPMENTS AS A TEMPORARY REACTION TO THE BETTER-THAN-EXPECTED PERFORMANCE IN MARCH. EPA SAID APRIL INDUSTRIAL OUTPUT AND SHIPMENTS SHOWED FIRST DECLINE IN SIX MONTHS, WHICH, HOWEVER, WAS PRIMARILY ATTRIBUTABLE TO EXPORT-ORIENTED INDUSTRIES, SUCH AS AUTOS AND COLOR TV'S, WHICH HAD SCORED RAPID INCREASES
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IN MARCH. THE LATEST EPA REPORT STRESSED STEADY RECOVERY OF PERSONAL CONSUMPTION. DEPARTMENT STORE SALES CONTINUED TO GROW MODERATELY WHILE NEW CAR REGISTRATIONS SPURTED IN MAY, THOUGH HOUSEHOLD SPENDING IN REAL TERMS RECORDED SMALLER INCREASE IN MARCH THAN IN FEB. EPA, HOWEVER, SAW NO SIGNS OF IMPROVEMENT IN LABOR CONDITIONS YET. BOJ MONTHLY REPORT RELEASED SAME DAY, JUNE 9, ACKNOWLEDGED GENUINENESS OF RECENT RECONOMIC RECOVERY. BOJ IS NOW CONFIDENT THAT SECOND-HALF BUSINESS HESITATION WILL NOT BE REPEATED THIS YEAR. BOJ STRESSED PUBLIC CAPITAL INVESTMENT HAS REMAINED STRONG SINCE THE BEGINNING OF NEW FISCAL YEAR AND PRIVATE CONSUMPTION IS PICKING UP. COMMODITY PRICES ARE FIRING WHILE CORPORATE PROFITS HAVE BEEN IMPROVING, ALTHOUGH AS YET THERE HAS BEEN NO IMPROVEMENT IN EXCESS MANPOWER AND PRODUCTION CAPACITY. BUSINESSMEN'S SENTIMENTS REGARDING ECONOMIC OUTLOOK HAVE ALSO BEEN BRIGHTENING, BOJ SAID.

5. WHOLESALE PRICE INDEX, N.S.A., ADVANCED 0.3 PCT IN MAY AFTER DECLINES IN PRECEDING TWO MONTHS, BANK OF JAPAN ANNOUNCED JUNE 13. WHOLESALE PRICE INDEX OF MANUFACTURED GOODS ALSO RECORDED A 0.3 PCT INCREASE IN MAY. OF THE 0.3

PCT INCREASE, 0.1 PERCENTAGE POINTS WAS ATTRIBUTED TO
WEAKER YEN EXCHANGE RATES DURING THE MONTH WHILE HIGHER
DOLLAR-DENOMINATED EXPORT PRICES TO ADJUST PAST YEN
APPRECIATION PUSHED UP MAY WPI BY 0.14 PERCENTAGE POINTS.

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TO SECSTATE WASHDC PRIORITY 8803

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APPRECIATION PUSHED UP MAY WPI BY 0.14 PERCENTAGE POINTS.
PRICE INCREASE FOR BEER DUE TO TAX RATE HIKES ALSO RAISED
WPI BY 0.05 PERCENTAGE POINTS.

WHOLESALE PRICE INDEX, N.S.A.

(1975 EQUALS 100; PCT CHANGE FROM PRIOR MONTH IN PAREN)

- ALL COMMODITIES MANUFACTURES

MARCH 105.6 (MIN 0.1) 105.3 (MIN 0.1)

APRIL 105.2 (MIN 0.4) 105.2 (MIN 0.1)

MAY 105.5 (0.3) 105.5 (0.3)

6. NEW PRIVATE MACHINERY ORDERS, S.A., RECEDED
IN APRIL. THE APRIL DECLINE, HOWEVER, SEEMS TO BE A FALL-
BACK FROM THE EXTREMELY RAPID SPURT IN MARCH. NEW
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MACHINERY ORDERS PLACED BY GOVT AND PUBLIC AGENCIES, ON THE OTHER HAND, REBOUNDED IN APRIL AFTER THE DECLINES IN PRECEDING TWO MONTHS.

NEW MACHINERY ORDERS, S.A. (IN BIL YEN; PCT CHANGE FROM PRIOR MONTH IN PAREN)

- PRIVATE ORDERS EXCL. GOVT AND PUBLIC
- SHIPS (JEI 337) ORDERS (JEI 335)

FEB 261.9 (2.7) 118.2 (MIN 7.8)

MARCH 350.8 (34.0) 97.4 (MIN 17.5)

APRIL 268.7 (MIN 23.4) 114.6 (17.6)

7. BANKRUPTCIES, N.S.A., ROSE SLIGHTLY IN MAY, PRIMARILY REFLECTING SEASONAL UPSWING. THE TWO PRIVATE RESEARCH ORGANIZATIONS WHICH COLLECT STATISTICS PLACED BANKRUPTCY CASES IN MAY AT 1,363 - 1,364, N.S.A., UP 1.7 PCT OVER THE PRIOR MONTH'S LEVEL. THE LIABILITIES OF BUSINESS FIRMS DECLARING BANKRUPTCIES DURING THE MONTH, HOWEVER, DECLINED SHARPLY BY 18 PCT TO \$875 MIL EQUIVALENT. ON YEAR-OVER-YEAR COMPARISON, THE NUMBER OF BANKRUPTCY CASES AND LIABILITIES DECLARED IN MAY 78 SUBSIDED FURTHER, DOWN 18 PCT AND 45 PCT, RESPECTIVELY.

8. LABOR CONDITIONS SHOW A MIXED PICTURE IN APRIL. THE NUMBER OF UNEMPLOYED, S.A., INCREASED IN APRIL BY 40,000 PERSONS OVER THE MARCH LEVEL TO 1.22 MIL BUT THE UNEMPLOYMENT RATE ADVANCED TO 2.2 PCT AFTER REMAINING AT 2.1 PCT FOR PRECEDING FIVE MONTHS. (NOTE: PRIMIN OFFICE USING DIFFERENT SEASONAL FACTORS THAN EPA ALSO REPORTS THAT APRIL UNEMPLOYMNT RATE WAS 2.2 PCT.)

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BRIGHT SIDE OF THE PICTURE WAS RISING OVERTIME WORKED IN MANUFACTURING INDUSTRIES, WHICH RECORDED THE SEVENTH STRAIGHT MONTH OF INCREASE. JOB OFFERS/APPLICANTS RATIO REMAINED UNCHANGED. UNIT LABOR COST IN APRIL NOT YET AVAILABLE.

LABOR CONDITIONS, S.A.

JEI NO. SERIES (UNIT) FEB MARCH APRIL

385 JOB OFFERS/APPLICANTS RATIO 0.53 0.55 0.55

401 MFG OVERTIME (1975 EQUALS 100) 143.4 146.2 149.8

378 UNEMPLOYED (THOUSANDS) 1160 1180 1220

379 UNEMPLOYMENT RATE (PCT) 2.1 2.1 2.2

421 UNIT LABOR COST (1975 EQUALS
- 100) 107.2 105.4 N/A

NOTE: ALL DATA ARE SEASONALLY ADJUSTED BY EPA.
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